

**“China’s Proliferation and the Impact of Trade Policy on  
Defense Industries in the United States and China”**

**Questions for the Record for the  
U.S.-China Economic and Security Review Commission**

**Submitted by  
Ambassador Don Mahley, Deputy Assistant Secretary of State for  
International Security and Nonproliferation**

**July 12, 2007**

**QUESTION: When the United States imposes sanctions on a company for proliferation, do the sanctions include requiring termination of joint ventures with U.S. companies in which the sanctioned firms are involved?**

**ANSWER:** There are a variety of nonproliferation sanctions authorities used by the United States Government to impose sanctions on foreign persons (including entities and individuals). The penalties vary under each of these authorities. While none of these authorities includes a *specific* penalty requiring termination of joint ventures with the sanctioned person, there are a variety of ways in which the imposition of proliferation-related sanctions on a foreign person could inhibit the ability of a U.S. company to maintain a joint venture relationship with a sanctioned firm and still fulfill the joint venture’s plans and goals. For example, sanctions under several of the nonproliferation sanctions authorities (including E.O. 12938; the Iran, North Korea and Syria Nonproliferation Act; the Arms Export Control Act; the Iran Sanctions Act) entail a prohibition on licenses for exports of defense items and/or dual-use items to the sanctioned person. This prohibition would preclude the U.S. partner to a joint venture from sending goods, services or technology to a foreign joint venture partner under sanction if a license would be required for such an export under regulations either of the Department of State or the Commerce Department. Some sanctions laws (missile sanctions in Section 73 of the Arms Export Control Act; chemical and biological weapons sanctions in Section 81 of the Arms Export Control Act; the Iran Sanctions Act; and E.O. 12938) include the possible imposition of an import ban. A foreign firm subject to an import ban would no longer be able to send its goods into the U.S., which may impact the planned activities of a joint venture. Finally, all property and interests of foreign companies designated under E.O. 13382 or those that come under the possession of the U.S. are blocked and U.S. persons or those with U.S. property or interests are prohibited from engaging in any transaction or dealing with the designated firm, including the provision to, or receipt from, the designated foreign company, of any funds, goods, or services. Thus, a U.S. company would be unable to maintain a joint venture with a foreign partner that has been designated under E.O. 13382.

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**QUESTION:** In reference to Chinese transfers to Iran that the United States believes may have violated UN Security Council Resolutions 1737 and 1747, the Commission requests information at a classified level on the items transferred, the Chinese entities involved in the transfers, how these transfers violate the UN resolutions, and the impact of the transfers on U.S. national security.

**RESPONSE:** The Department of State would refer you to the Intelligence Community on matters concerning specific Chinese transfers to Iran. We understand that the Commission already has been in contact with the Intelligence Community on this and other matters, and that the Community stands ready to address this question in an appropriate manner.